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RUEHVEN/USMISSION USOSCE 2237
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SUBJECT: TURKMENISTAN: VISIT LAYS GROUNDWORK FOR UPCOMING USAID
ECONOMIC REFORM PROJECT

REF: ASHGABAT 0230

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: On January 30-31, Almaty-based USAID/CAR Senior Economist Michael Boyd met with several new economic institutions in Turkmenistan to discuss potential cooperation with USAID's upcoming Enhancing Reforms for Economic Competitiveness (EREC) project. Staff from the Supreme Control Chamber, formed in July 2007 and now headed by former First Deputy Minister of Economy and Finance Tuwakmamet Jeparov, were receptive to cooperation, and asked for more details on USAID's Human and Institutional Capacity Development project in Kazakhstan. The Deputy Chairman of the Institute for Strategic Planning and Economic Development outlined the organization's expected functions and stressed the relative youth of its staff and their need for training. The next day, one of the participants in the meeting called USAID and asked how the Institute could cooperate with USAID. The Parliament Deputy Chair and Social and Economic Committee Chair expressed appreciation for the program materials USAID previously provided and were receptive to proposals for cooperation under EREC. As specific options for cooperation with new economic institutions become better defined, limited FY08 funding will require a thorough review of the opportunities to avoid overcommitting to receptive parties. END SUMMARY.

SEEKING NEW PARTNERS FOR UPCOMING ECONOMIC REFORM PROJECT

¶3. (U) USAID intends to award a three-year regional contract for the Enhancing Reforms for Economic Competitiveness (EREC) project in March 2008. Under this project, proposed activities will focus on windows of opportunity linked to priority interests of the Government of Turkmenistan, with particular possibilities to assist: the Ministry of Finance to help strengthen implementation capacity for budget development and planning, integrate planning and execution of extra-budgetary funds and the public investment program, strengthen program budget database management capacity, revise budget classification to international best practices and

develop budget implementation procedures to support rural development; assist the Central Bank of Turkmenistan (CBT) on monetary policy tools and implementation, on strengthening risk-based bank supervision, and possible support on aspects of developing mortgage and other assets markets; help the newly-established Institute for Strategic Planning and Economic Development to strengthen capacity for development, review and oversight of economic strategies and policy; and aid the Supreme Regulatory Chamber to oversee public sector financial and economic activities.

¶4. (U) After being told by Ministry of Economy and Finance for the last year that it was waiting for EU-TACIS to launch its economic program and following limited substantive engagement with the Central Bank of Turkmenistan, USAID broadened its outreach in pre-launch preparation for the EREC project to new economic institutions. USAID/CAR Senior Economist Michael Boyd traveled to Ashgabat on January 30-31 to explore cooperation with several potential new partners, including the Supreme Regulatory Chamber and the Institute for Strategic Planning and Economic Development. (NOTE: The meetings took place just prior to the February 2 announcement that split the Ministry of Economy and Finance into separate Ministry of Finance and Ministry of Economy and Development. Reftel A. END NOTE.) He also met with the Parliamentary Committee on Social and Economic Policy to discuss opportunities to strengthen its capacity for development, review and oversight of economic and fiscal legislation.

PARLIAMENT: RECEPTIVE, BUT NON-COMMITTAL

¶5. (U) Deputy Parliament Chair Kasim Babayev outlined the accomplishments and future priorities of the Parliament as President Berdimuhamedov approached one year in office. The June 2007 reforms

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were "just the beginning" of intended broader restructuring of the agricultural sector. Through the new Rural Development Strategy, the government intended to strengthen local organs of government and raise the standards of living for rural inhabitants. Finally, President Berdimuhamedov previously announced a \$4 billion capital investment program and already put money towards these projects, but improvements in the legal framework for foreign investment, credit and other areas were necessary to fully realize the intended scope.

¶6. (U) Babayev explained that he serves as head of a newly formed state commission to gather inputs related to bringing local legislation in line with international standards. Economic priority areas included foreign investment, monetary policy and small and medium enterprise development. Furthermore, many deputies traveled in 2007 to study the experience of other countries. In response to Boyd's question about the possibility of undertaking a Commercial Legal and Institutional Reform diagnostic, which USAID has supported in other post-Soviet countries, Babayev thanked Boyd for the proposal and said that this type of study "may be useful." He also said that the two sides could cooperate, and USAID should submit any specific proposals to learn from international standards via the Ministry of Foreign Affairs.

STRATEGIC PLANNING INSTITUTE: INTERESTED TO CHANGE OLD WAYS

¶7. (U) The Institute's Deputy Director, Muhammed Atayev, said that its mission was to project areas for growth and state support based on statistics. Specifically, President Berdimuhamedov ordered the Institute to develop both short- and long-term plans in support of the rural development program, since 80% of Turkmenistan is considered rural. The Institute was developing these plans, which will be improved each year. In addition, it was developing a construction program for 2011-2015, which would also strengthen the domestic construction industry, and provided analysis and concrete proposals for state ministries and agencies covering, for example, the transportation sector.

¶8. (U) Atayev said that the Institute had a staff of approximately 80 that is "experienced, but young." As a result, one challenge is to improve its staff's qualifications. With regard to cooperation,

it aims to strengthen the scientific base for its work through joint activities, but its work depends on the guidance provided by Presidential decrees. If work is to be successful, this approach must be followed. Noting that the Institute would "try to participate" in joint activities under EREC, Atayev said that its specialists were ready to learn from the experience of others that have already made an economic transition, like Kazakhstan. The next day, the Institute's financial department head, who was present in the initial meeting, called USAID to inquire about how the Institute should proceed in order to establish a relationship with USAID.

SUPREME CONTROL CHAMBER: COMPETENT YOUNG SPECIALISTS

¶9. (U) Turkmenistan's Supreme Control Chamber was established in July 2007 to strengthen state control over financial activities and to ensure the proper use of state resources and other property. Batyr Polatov, head of the International Project Analysis Department, described the structure of organization and its three functional departments for oversight of: implementation of financial and economic activities, including managing natural resource, insurance and banking activities; implementation of budget activities, including income, expenditure and state property; and international investment projects.

¶10. (U) Polatov and other Control Chamber staff showed interest in cooperation and noted that as a new organization, it can learn from the experience from similar organizations not only in the region (primarily Kazakhstan), but from more advanced countries. Department Head Serdar Charyyev asked for information on USAID's

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Human and Institutional Capacity Development project (HICD) in Kazakhstan and the audit standards for the U.S. Government Accountability Office. (NOTE: Prior to joining the Supreme Chamber, Mr. Charyyev briefly worked for a USAID implementing partner, and was responsible for developing its local economic development component. Prior to that, he received a Master's in Public Administration from Columbia University and was an advisor to the Chairman of the Central Bank of Turkmenistan. END NOTE.) Polatov said that the Chamber had not signed agreements for technical assistance with international organizations yet, but that it was receptive to cooperative activities after addressing ongoing organizational issues. As a next step, USAID agreed to provide materials on its work with similar supreme audit institutions, as well as the HICD project. The chamber agreed to develop and share a list of its priorities and potential areas of assistance in advance of Mr. Boyd's scheduled return visit in March 2008.

¶11. (SBU) COMMENT: Technical assistance opportunities in Turkmenistan have been very limited in recent years, a situation which appears to be slowly changing thanks to the emergence of several new institutions. Initial discussions during this visit were promising, with two new potential partners expressing interest in cooperation. The seemingly old-school Institute for Strategic Planning and Economic Development expressed interest in receiving technical assistance and training support for its young staff and took the almost unprecedented step of calling USAID to ask how its staff might participate in training sessions organized under the EREC project. Alternatively, the Supreme Regulatory Chamber's young, capable professionals were well-prepared for the meeting and were able to articulate clear interests for potential cooperation that will help it achieve its objectives. During Boyd's next visit in March, he will be joined by representatives of the new EREC project to follow up on these initial discussions and identify specific areas of cooperation.

¶12. (SBU) COMMENT CONTINUED: That said, FY08 funding is limited. The current level of \$0.258m for 4.1 Macroeconomic Foundation for Growth is below the government cost estimate for the project, which means that hard decisions regarding whom to work with will have to be made in the months following the contract's award. Although current FY09 projections are more favorable, the potential demand for technical assistance appears to outstrip even these higher funding levels. Additional resources will help build much-needed capacity in new institutions that are just being stood up under the leadership of President Berdimuhamedov and a few apparently

reform-minded bureaucrats. Building the necessary capacity to promote responsible stewardship of Turkmenistan's considerable natural-resource wealth is a long-term project that will require sustained U.S. engagement -- with expected additional inputs from a variety of donors -- for a long time to come. END COMMENT.

HOAGLAND